

**Internal Revenue Service**  
P.O. Box 2508  
Cincinnati, OH 45201

**Department of the Treasury**

Release Number: **201501022**  
Release Date: 1/2/2015  
Date: October 10, 2014

**Employer Identification Number:**

**Contact person - ID number:**

**Contact telephone number:**

**LEGEND**

UIL: 4945.04-04

X= Name  
Y= School District  
Z= State

m dollars= Amount  
n=Number  
p=Number

Dear :

You asked for advance approval of your scholarship grant procedures under Internal Revenue Code section 4945(g). This approval is required because you are a private foundation that is exempt from federal income tax. You requested approval of your scholarship program to fund the education of certain qualifying students.

**Our determination**

We approved your procedures for awarding scholarships. Based on the information you submitted, and assuming you will conduct your program as proposed, we determined that your procedures for awarding scholarships meet the requirements of Code section 4945(g)(1). As a result, expenditures you make under these procedures won't be taxable.

Also, awards made under these procedures are scholarship or fellowship grants and are not taxable to the recipients if they use them for qualified tuition and related expenses (subject to the limitations in Code section 117(c)).

**Description of your request**

Your letter indicates that you will operate a scholarship program called X. You provide scholarships to students who are graduates of Y who are continuing their education with preference to those who are pursuing careers in the teaching profession. The scholarships are only available to students who plan to attend schools in Z and are to be used primarily for tuition and other related expenses.

The number of scholarships that will be awarded each year and the amount of each scholarship will vary depending on the amount of funds available to be distributed. You are required to annually distribute the greater of the net income of the trust or the amount that must be distributed to satisfy Code Section 4942. Up to p scholarships for m dollars is anticipated and will be paid on a schedule of  $\frac{1}{2}$  the full amount per semester. Information about X is found on Y's website. Also, the scholarship packets are sent to the assistant superintendent, the public relations director, and to the principals and head counselors at each campus in Y. They also promote the scholarship opportunity to all of the students.

Only graduates from Y with preference to those preparing for a teaching profession, are eligible to apply. Scholarship applicants are required to submit the following:

- A one page essay, written by the applicant, expressing his/her interest in continuing his/her education or pursuing a degree in the teaching profession;
- Attendance records for all years in attendance in Y;
- Transcripts that include absences, GPA, and class ranking;
- At least two letters of recommendation attesting to the applicant's potential for becoming a future teacher. One of the letters should be from someone outside Y.

The selection committee referred to as the Scholarship Advisory Committee is made up of n officials from Y. Each year you will advise the Scholarship Advisory Committee of the amount of funds available to be awarded as scholarships. The members of the Scholarship Advisory Committee review the scholarship applications and rank the applicants based on the degree they are pursuing, school attendance, GPA and class ranking. The Scholarship Advisory Committee then submits its recommendations and the amount to be awarded to you to make the final selection. All scholarships are awarded on an objective and non-discriminatory basis. No scholarship may be awarded to any disqualified person as defined in Code Section 4946.

You will pay the scholarship proceeds directly to the university/college the recipient attends for the benefit of the recipient. You provide a letter to each university/college specifying that the university/college's acceptance of the funds constitutes the university/college's agreement to (i) refund any unused portion of the scholarship if a scholarship recipient fails to meet any term or condition of the scholarship; and (ii) notify you if the scholarship recipient fails to meet any term or condition of the scholarship. If the university/school will not agree to such terms then you will obtain the needed reports and grade transcripts from the scholarship recipient.

You maintain case histories showing recipients of your scholarships, including names, addresses, purposes of awards, amount of each award, manner of selections, and relationship (if any) to officers, trustees, or donors of funds to you. You maintain such information and documentation until the applicable statute of limitations period expires.

### **Basis for our determination**

The law imposes certain excise taxes on the taxable expenditures of private foundations (Code section 4945). A taxable expenditure is any amount a private foundation pays as a grant to an individual for travel, study, or other similar purposes. However, a grant that meets all of the following requirements of Code section 4945(g) is not a taxable expenditure.

- The foundation awards the grant on an objective and nondiscriminatory basis.
- The IRS approves in advance the procedure for awarding the grant.
- The grant is a scholarship or fellowship subject to the provisions of Code section 117(a).
- The grant is to be used for study at an educational organization described in Code section 170(b)(1)(A)(ii).

**Other conditions that apply to this determination**

- This determination only covers the grant program described above. This approval will apply to succeeding grant programs only if their standards and procedures don't differ significantly from those described in your original request.
- This determination applies only to you. It may not be cited as a precedent.
- You cannot rely on the conclusions in this letter if the facts you provided have changed substantially. You may report any significant changes to your program by completing Form 8940 and sending it to the Cincinnati Office of Exempt Organizations at:

Internal Revenue Service  
Exempt Organizations Determinations

- You cannot award grants to your creators, officers, directors, trustees, foundation managers, or members of selection committees or their relatives.
- All funds distributed to individuals must be made on a charitable basis and further the purposes of your organization. You cannot award grants for a purpose that is inconsistent with Code section 170(c)(2)(B).
- You should keep adequate records and case histories so that you can substantiate your grant distributions with the IRS if necessary.

Please keep a copy of this letter in your records.

If you have questions, please contact the person listed at the top of this letter.

Sincerely,

Director, Exempt Organizations